

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 CIAE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 COME-00 EB-11 FRB-02

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 NEA-10

CEA-02 STR-08 DRC-01 /205 W
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P R 210902Z NOV 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9314

INFO AMEMBASSY SINGAPORE

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 13076

USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 2/21/74

TAGS: EAID, EFIN, SN

SUBJ: PROPOSED ADB SECOND LOAN TO DEVELOPMENT BANK
OF SINGAPORE

SUMMARY: ADB MANAGEMENT PROPOSES SECOND \$10
MILLION EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES
TO DEVELOPMENT BANK OF SINGAPORE (DBS) TO FINANCE FOREX
COSTS OF SUBLOANS OF DBS FOR NEXT THREE YEARS. LOAN
WILL AUGMENT FOREX REQUIREMENTS, INCREASING LEVEL OF
TERM LOANS IN DBS PIPELINE. USADB RECOMMENDS FAVORABLE
NAC ACTION. END SUMMARY.

1. ADB DOC R103-73 WITH ATTACHMENTS DESCRIBING PROPOSED
LOAN POUCHED ADDRESSEES NOV 20. BOARD CONSIDERATION
SCHEDULED DEC. 11.

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2. ADB MANAGEMENT PROPOSING \$10 MILLION EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES FOR DEVELOPMENT BANK OF SINGAPORE (DBS). PROCEEDS WILL INCREASE DBS'S RESOURCES FOR EXTENSION OF SUBLOANS TO PRIVATE ENTERPRISES IN SINGAPORE TO COVER FOREX COSTS. AMORTIZATION WILL CONFORM SUBSTANTIALLY TO AMORTIZATION SCHEDULE OF SUBLOANS MADE FROM PROCEEDS, SUBJECT TO MAXIMUM 15 YEARS FROM TIME LOAN ACCOUNT IS CREDITED, INCLUDING GRACE PERIOD NOT TO EXCEED THREE YEARS. INTEREST RATE CHARGED TO DBS WILL BE RATE PREVAILING AT TIME EACH SUBLOAN IS CREDITED TO DBS LOAN ACCOUNT. DBS WILL ALSO PAY COMMITMENT CHARGE 3/4 PERCENT PER ANNUM ON UNDRAWN BALANCE OF LOAN ACCOUNT FROM DATE OF CREDITING. AVERAGE LENDING RATE FOR SUBLOANS HAS BEEN 9 PERCENT. DBS TO BE BORROWER AND EXECUTING AGENCY AND REPUBLIC OF SINGAPORE THE GUARANTOR.

3. SHARE OF SINGAPORE'S INDUSTRIAL SECTOR IN GDP MADE SIGNIFICANT INCREASE FOLLOWING CHANGE IN BASIC ECONOMIC POLICY AT TIME OF INDEPENDENCE (1965), ABANDONING LONG RANGE PLANNING AND IMPORT SUBSTITUTION IN FAVOR OF VIGOROUS EXPORT PROMOTION AND DECENTRALIZED INDUSTRIAL DEVELOPMENT. MANUFACTURING SECTOR AS SHARE OF GDP WENT FROM 10.3 PERCENT IN 1966 TO 23.5 PERCENT IN 1972. PER CAPITA GDP AT CURRENT EXCHANGE RATE (\$2.34 TO US\$1.00) IS US \$1457, HIGHEST AMONG DEVELOPING COUNTRIES OF ASIA. THIS REMARKABLE ECONOMIC PROGRESS ATTRIBUTED TO RAPID INVESTMENT GROWTH SUPPORTED BY HIGH DOMESTIC SAVINGS. VALUE ADDED BY MANUFACTURING WENT UP ALMOST SEVENFOLD IN LAST DECADE--FROM S\$240 MILLION TO S\$1646 MILLION--WHILE EMPLOYMENT IN MANUFACTURING REACHED 190,290 (40 PERCENT OF TOTAL) IN 1972. EXPORTS OF PETROLEUM AND PETROLEUM PRODUCTS ACCOUNTED FOR ONE THIRD OF DOMESTIC EXPORTS AND GOVT PLANS INCREASING RELIANCE ON BOTH OIL REFINING AND PROJECTED PETRO-CHEMICAL COMPLEX. TWO-THIRDS OF SINGAPORE'S CRUDE OIL ORIGINATES IN MIDDLE EAST.

4. DBS AS PUBLIC COMPANY WITH GOVT NOMINATING 5 OF 11 DIRECTORS IS KEY AGENCY TO STIMULATE CONTINUING INDUSTRIAL GROWTH; ONLY DEVELOPMENT FINANCING INSTITUTION DESIGNED PROVIDE LONG TERM LENDING AND EQUITY FINANCING FOR INDUSTRY LIMITED OFFICIAL USE

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IN SINGAPORE. DBS HAS DIVERSIFIED PORTFOLIO SPREAD OVER ALL SECTORS ESPECIALLY TRANSPORT, ELECTRICAL MACHINERY AND POL. TWENTY-FIVE PERCENT OF DBS LOANS ARE TO WHOLLY FOREIGN-OWNED COMPANIES, REFLECTING SINGAPORE'S UNIQUE INVESTMENT STRUCTURE POLICY OF ATTRACTING HIGH TECHNOLOGY INDUSTRIES. CREDIT LINE OF FIRST ADB LOAN UTILIZED BY MAJOR INDUSTRIAL SECTORS INCLUDING IRON AND STEEL (US \$3.6 MILLION), MACHINERY (US \$1.1 MILLION) AND TRANSPORTATION

(US \$1.0 MILLION). GOVT HAS PROVIDED CREDIT LINES TO DBS AT CONCESSIONAL INTEREST AND THREE GOVT LOANS COMPRISE BULK DBS RESOURCES. AS OF JUNE 1973, GOVT LOANS WERE 69 PERCENT OF TOTAL RESOURCES; FOREIGN LOANS WERE 5.2 PERCENT (OF WHICH FIRST ADB LOAN ACCOUNTED FOR 3.2 PERCENT). DBS ALSO UNIQUELY AGGRESSIVE FOR A DEVELOPMENT BANK IN PROMOTIONAL ACTIVITIES WHICH INCLUDE INTER ALIA, FORMULATING ORGANIZATION AND TAKING EQUITY PARTICIPATION IN HIGH PRIORITY INDUSTRIES, INCLUDING IDENTIFICATION OF FOREIGN PARTNERS; HEAVY INVOLVEMENT MERCHANT BANKING, INCLUDING ROLE AS CO-MANAGING UNDERWRITER FOR GOVT'S ASIA BOND ISSUE; PROMOTION AND PARTICIPATION IN SYNDICATE LOANS FOR NATIONAL GAS AND OIL EXPLORATION IN BRUNEI AND INDONESIA, AND INVOLVEMENT IN JOINT VENTURES ESTABLISHING MERCHANT BANKS AND A DISCOUNT HOUSE. (JOINING DBS'S BANKING VENTURES INCLUDE PARTNERSHIPS WITH DAIWA SECURITIES, NOMURA MERCHANT BANKING LTD AND MORGAN GUARANTY AND PARTNERS.)

5. DBS IS ALSO MAJOR PROTAGONIST IN ESTABLISHMENT OF AN ASIAN CAPITAL MARKET, INCLUDING FORMULATION OF ASIAN CURRENCY UNITS (ACU'S) TO FACILITATE INTERBANK BORROWING AND LENDING AND PROVIDE ACCESS FOR MULTI-NATIONAL ENTERPRISES TO SHORT TERM AND EVENTUALLY LONGER CREDITS.

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 CIAE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

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XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 NEA-10

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P R 210902Z NOV 73

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 9315

INFO AMEMBASSY SINGAPORE

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USADB

FOR NAC AGENCIES

6. ADB'S FIRST LOAN TO DBS OF \$10 MILLION EQUIVALENT WAS APPROVED IN JUNE 1969. BY SEPT 1973, TOTAL AMOUNT HAD BEEN FULLY CREDITED TO 21 SUBLOAN PROJECTS AND US \$8.9 MILLION DISBURSED, WITH REMAINING US \$1.1 MILLION EXPECTED TO BE DISBURSED BY END OF 1973. DBS'S APPRAISAL TECHNIQUES FOR SUBLOANS CONSIDERED BY BANK MISSION TO BE GENERALLY SATISFACTORY. RELATIVELY SOPHISTICATED ANALYTICAL APPROACH IS APPLIED TO FINANCIAL ASPECTS OF SUBLOANS. RATIO OF ARREARAGES TO OUTSTANDING LOANS OF DBS HAS IMPROVED CONSIDERABLY SINCE 1970 WHEN IT REACHED HIGH OF 11.8 PERCENT. ADEQUATE PROVISIONS TO COVER LOSSES WERE TAKEN, AND IMPROVED MANAGEMENT HAS REDUCED RATIO TO A SATISFACTORY LEVEL OF 3.2 PERCENT AS OF JUNE 1973. DBS HAS AUTHORIZED DEBT/EQUITY RATIO OF 10.1. IN VIEW OF BANK MISSION, THIS SHOULD BE REDUCED TO 7.1 FOR PROPOSED LOAN, CONSIDERING DBS MANAGEMENT, COMPETENCE, SOUNDNESS OF OPERATIONAL LIMITED OFFICIAL USE

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PROCEDURES, AND ANTICIPATED NEAR FUTURE CAPITAL INCREASE WHICH WILL LEAVE SUFFICIENT ROOM FOR FUTURE LONG TERM BORROWINGS.

7. DBS AGREES TO ACT PRIMARILY AS A DEVELOPMENT BANK IN CONDUCTING ITS DEVELOPMENT, COMMERCIAL AND INVESTMENT BANKING OPERATIONS (SEE SIDE LETTER NO. 2). AS IN FIRST LOAN ELIGIBLE SUB-BORROWERS WILL BE PRIVATE ENTERPRISES IN INDUSTRIAL SECTOR USING LOANS FOR PRODUCTIVE PURPOSES. CAPITAL-INTENSIVE, EXPORT ORIENTED MANUFACTURING SECTOR, ESPECIALLY PLANNED PETRO-CHEMICAL COMPLEX, EXPECTED TO BE PRINCIPAL BORROWERS OF SUBLOANS. WITH PRIOR BANK APPROVAL, LOANS TO WHOLLY-OWNED FOREIGN SUBSIDIARIES WILL BE ON CASE-TO-CASE BASIS. FINAL FREE LIMIT UNDER FIRST LOAN OF US \$350,000 TO BE INCREASED TO US \$500,000 FOR THIS LOAN IN VIEW LARGER AVERAGE SIZE OF PROJECTS, PRICE ESCALATIONS SINCE CURRENCY REALIGNMENTS, AND ON BASIS SOUND OPERATIONAL POLICIES AND SATISFACTORY APPRAISAL TECHNIQUE OF DBS. PROCUREMENT ARRANGEMENTS TO BE IN ACCORD WITH BANK'S GUIDELINES FOR PROCUREMENT AND CURRENT ADB PRACTICE DEVELOPMENT BANK LOANS, FOR INDIVIDUAL CONTRACTS EXCEEDING US \$800,000 EQUIVALENT, INTERNATIONAL COMPETITIVE BIDDING REQUIRED, BETWEEN \$800,000 TO \$400,000 "INTERNATIONAL SHOPPING" PROCEDURES WILL BE FOLLOWED. FOR LESS THAN \$400,000, DBS WILL ASSURE ITSELF THAT PRICES ARE

REASONABLE AND COMPETITIVE AND GOODS/SERVICES PROCURED
ARE SUITABLE FOR THE PROJECT.

8. DBS EXPECTS IN LONG RUN TO RAISE NECESSARY ADDITIONAL
FUNDS ON GROWING CAPITAL MARKET BY ISSUANCE CERTIFICATES
OF DEPOSIT BAN BY FLOATING BONDS AND DEBENTURES. FOR
NEXT FEW YEARS, HOWEVER THESE SOURCES WILL BE LIMITED AND
COSTLY. PROPOSED LOAN WILL HELP EASE FOR DBS THIS TRANSI-
TION TO CAPITAL MARKET SOURCES UNTIL MARKET IS DEVELOPED
TO PROVIDE SUFFICIENT AMOUNTS AT LOWER COSTS. USADB BE-
LIEVES THIS PROBABLY SHOULD BE LAST BANK LOAN TO DBS IN
VIEW DBS'S ACCESS TO ANTICIPATED EXPANSIONS CAPITAL MARKET.
USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

9. REQUEST SINGAPORE'S COMMENTS FOR NAC AGENCIES, INFO
USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972.
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